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After rail, city will spend 17% of taxes on transportation

Bus, Handi-Van and rail fare increases will be imposed later as a way to subsidize these services

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City taxpayer subsidies for public transportation in Honolulu will increase by hundreds of millions of dollars to 17 percent of overall city tax collections after the new 20-mile rail system gets rolling, according to the new financial plan for rail.

The city now spends about 12 percent of general fund and highway fund tax collections to subsidize transit, which means Honolulu is about to significantly increase the share of the overall budget pie devoted to public transportation.

At the same time, the city plans to impose fare increases in the years ahead that will require riders to pay more to use TheBus, TheHandi-Van and the new rail system, according to the rail financial plan.

The city is planning for significant fare increases in 2017 and 2023 to help cover the operating costs of the combined rail, bus and Handi-Van systems.

The city recently released those updated transit cost calculations as part of an application to the Federal Transit Administration for $1.55 billion in federal funds to help finance construction of the rail system.

The new rail financial plan recalculates the taxpayer subsides that will be required to operate the overall bus/rail/Handi-Van transit system, and concludes the city subsidy from fiscal year 2010 to 2030 will be $5.871 billion.

That is $582 million more in taxpayer transit subsidies than the city estimated in a previous draft of the rail financial plan released last September.

That transit operating subsidy is separate from the cost of building the new rail system. The city expects to pay another $5.26 billion to construct the rail system, with most of that money coming from a special half-percent general excise tax surcharge for rail that Oahu residents have been paying since 2007.

Part of the projected increase in transit operating costs was caused by new calculations that predict higher costs for personnel and electricity for the new rail system.

The new financial plan also incorporates updated calculations of wages, health care, fuel and other costs needed to operate TheBus and Handi-Van that indicate those systems will also be more expensive than previously projected.

City Council Budget Committee Chairwoman Ann Kobayashi said she is uncomfortable with the projected growth in taxpayer transit subsidies, in part because the amount of subsidy that will be required to run the transit system depends on ridership.

"If the ridership doesn't pan out the way they projected, it's a greater subsidy," she said. "The whole thing is very worrisome. And you know, the greatest source of revenue for the city is property taxes."

Wayne Yoshioka, director of the city Department of Transportation Services, said the future cost of the transit system would be higher, and the required taxpayer subsidy larger, if Honolulu tried to provide the same level of transit service over the next 20 years without rail.

The appropriate taxpayer subsidy for the transit system is a policy decision that Mayor Peter Carlisle and the City Council weigh carefully, Yoshioka said.

"Honolulu has traditionally been committed to a high degree of transit subsidy in an effort to keep transit affordable," Yoshioka said.

City policy today requires that fares paid by riders cover between 27 and 33 percent of the cost of operating TheBus, with city taxpayers subsidizing the system by paying most of the rest of the cost.

That taxpayer subsidy for TheBus and TheHandi-Van operations combined will be about $148 million this fiscal year, according to the financial plan.

Helping to offset the cost of running the transit system will be nearly $2.16 billion the city plans to collect in rail, bus and Handi-Van rider fares from 2010 to 2030. That is $164 million more in fare collections than the city projected last fall.

Yoshioka said it is "hard to predict" exactly how much rail and bus transit riders would be required to pay in 2017 or 2023 as a result of the fare increases planned for those years.

"There are many variables involving operating costs and involving policy," Yoshioka said. "However, it is reasonable to expect transit fares to increase in the future due to inflation."

The most recent bus fare increase in 2010 set the adult fare at $2.50 and the youth fare at $1.25.

Daniel Grabauskas, executive director of the Honolulu Authority for Rapid Transportation, said transit systems typically see some decrease in ridership for 12 to 18 months after a fare increase, and then ridership recovers.

However, when other factors such as escalating gasoline prices are part of the picture, ridership might bounce back more quickly, he said.

"There are other factors that will drive ridership," he said. "No. 1 is the economy. A robust economy means more ridership."

Yoshioka said past experience with TheBus suggests that "moderate increases in fares do not significantly impact ridership. If current policies continue in the future, transit fares will continue to be very affordable when compared with other forms of motorized transportation."